VZCZCXYZ0000
RR RUEHWEB

DE RUEHMU #1055/01 3032016
ZNY CCCCC ZZH
R 302015Z OCT 09
FM AMEMBASSY MANAGUA
TO RUEHC/SECSTATE WASHDC 0049
INFO WHA CENTRAL AMERICAN COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

C O N F I D E N T I A L MANAGUA 001055

SIPDIS
STATE PASS USTR

E.O. 12958: DECL: 2019/10/30
TAGS: ECON ETRD KTEX NU
SUBJECT: Nicaragua: The General's New Clothes

REF: 2009 MANAGUA 324; 2008 MANAGUA 1374

CLASSIFIED BY: Robert J. Callahan, Ambassador, U.S. Embassy, Managua;
REASON: 1.4(B), (D)

Summary

¶1. (C) Retired General Alvaro Baltodano, Nicaragua's Presidential Delegate for Investment Promotion, briefed the Ambassador on his recent trip to Washington to advocate for more flexible textile and apparel rules for Nicaragua in the implementation of the United States - Central America - Dominican Republic Free Trade Agreement (CAFTA-DR). Local contacts have reported that Baltodano has a personal interest in the matter. When a Taiwanese company pulled out of Nicaragua in 2008, the Nicaraguan Free Trade Zone Corporation, with the direct participation of Baltodano and another former general, bought the company's assets and now take advantage of Nicaragua's preferential access to export trousers to the United States.

Reset the Clock on Nicaraguan Apparel Benefits

¶2. (U) On October 21, retired General Alvaro Baltodano, who serves as Presidential Delegate for Investment Promotion, briefed Ambassador Callahan on his trip to Washington the week prior to address textile and apparel trade issues. Baltodano told the Ambassador he had met with both Assistant U.S. Trade Representative for Textiles Gail Strickler and Deputy Assistant Secretary of Commerce for Textiles and Apparel Kim Glas. He outlined a proposal to "reset the clock" on the one-for-one rule, whereby Nicaragua must use a certain amount of U.S. fabric so that trousers sewn from third-country fabric may enter the United States duty free under the Tariff Preference Level (TPL) established that year for Nicaragua according to CAFTA-DR.

¶3. (U) Baltodano argued that apparel manufacturing has not taken off in Central America as anticipated when CAFTA-DR was negotiated, and that U.S. supplies of fabric are too expensive. As a result, Nicaragua has not met its one-for-one commitment and has seen its TPL penalized. Baltodano is afraid the situation will become untenable: U.S. textile mills continue to close, the one-for-one requirement is becoming more stringent, and TPLs are scheduled to phase out. His solution is to apply 2006 one-for-one requirements and TPLs for 2010. He also suggested trade financing might facilitate the sale of U.S. fabric so that local manufacturers can meet the one-for-one requirement.

Baltodano and the GON Buy an Apparel Factory

¶4. (C) On October 22, Charles Rogers, General Manager of VF - Nicaragua, told Econoff that General Baltodano is motivated by personal interests in his efforts to see one-for-one rules relaxed. Other apparel industry insiders have made similar comments. In a separate conversation on October 27, Scott Vaughn, General Manager of Rocedes Apparel and President of the Nicaraguan Association of Textile and Apparel Industries (ANITEC), explained those interests in more detail. Vaughn told Econoff that when Nien Hsing withdrew from Nicaragua in July 2008, the Taiwanese company closed five plants and eliminated 14,850 jobs (Ref A). According to Vaughn, Baltodano, in his role as President of the Nicaraguan Free Trade Zone Corporation (CZF)-which owns the Las Mercedes Industrial Park where three of Nien Hsing's plants were located-forced the company to sell its equipment to the CZF at a fire-sale price of $3.1 million. The CZF then looked to sell off the assets to a company interested in operating an apparel factory in Nicaragua.

¶5. (C) Baltodano found it difficult to find a buyer at first, but finally identified a Mexican company, Kaltex. Vaughn reported that Baltodano offered six months of free rent to sweeten the deal.

When that deal fell through, Baltodano, retired General JoaquC-n Cuadra, and Mexican Luis Velasquez formed C & C Apparel to operate the three facilities located in Las Mercedes. Several months ago, Baltodano and Cuadra forced out their Mexican partner, according to Vaughn. He also alleged that in addition to the private capital provided by Baltodano and Cuadra, C&C Apparel operates with funding from the CZF. Vaughn told Econoff that C&C employs 2,100 and has shipped 2 million square meter equivalents (SMEs) of trousers so far in 2009.

TPL Administration Lacks Transparency and Fairness

¶6. (C) Vaughn complained that the process by which the Nicaraguan Free Trade Zone Commission (CNZF) allocates TPL now lacks transparency and fairness, two principles that were in place when the system was introduced in 2006. He said that the CNZF has transferred all 9.3 million TPLs formerly in the hands of Nien Hsing to C&C. Because C&C is a new company, it should have been allocated TPLs from the limited amount set aside each year for start-ups. With TPLs trading among apparel companies in Nicaragua for about $.30 an SME, those could provide $1.9 million in revenue for C&C this year, assuming that the company uses about 3 million TPLs and trades the balance. In addition, Vaughn said C&C does not pull its weight in meeting the one-for-one requirement, having shipped no trousers to date that use U.S. fabric. Finally, Baltodano has not called a meeting of the TPL Board, on which Vaughn sits, for more than a year.

Comment

¶7. (C) During the past few years, Baltodano has been a dogged advocate for Nicaraguan textile and apparel manufacturers. As a former general, his "mission" was to attract investment and create employment for Nicaraguans. Given the information provided to us by these credible sources about Baltodano's new business, it

appears that his mission has changed. The next time he makes a pitch for concessions on textile and apparel issues, we will recall that he and the GON now have direct financial interests at play.
CALLAHAN